



Insurance Corporation of British Columbia

SERVICE PLAN 2003 - 2005

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Purpose

The Insurance Corporation of British Columbia's (ICBC) 2003 - 2005 Service Plan provides the public with an overview of the corporation's three-year plan to meet its responsibilities for providing auto insurance and driver and vehicle licensing services. This Service Plan is designed to assist the public in holding ICBC to account for its performance by describing:

- where the corporation envisions itself in three years
- what goals ICBC needs to achieve to reach this vision
- how ICBC defines and measures its progress toward achieving these goals.

In early 2004, ICBC will publish its Annual Report describing the extent to which the corporation has accomplished its goals set out in the 2003 Service Plan. The Service Plan and Annual Report are two important components of the broader accountability framework for Crown corporations.

In structuring the Service Plan, ICBC has relied upon the guidance provided by:

- the Legislative Assembly of BC's Select Standing Committee on Crown corporations (SSCCC) in *A Guide to Operations*, June 2002 and
- The Crown Agency Secretariat's *Guidelines for Government Organizations Service Plans*, August 2002.

BALANCING ACCOUNTABILITY AND COMMERCIAL SENSITIVITY

ICBC competes with other insurance companies in the sale of optional auto insurance products in BC. These products represent a market of over 1.1 billion dollars and an important component of ICBC's business. As a result, this Service Plan does not provide specific information pertaining to ICBC's competitive insurance products including competitive intelligence, performance measures and targets associated with the competitive line of business and specific competitive business strategies. ICBC is vulnerable to the risks of disclosing or publishing commercially sensitive information including associated operational performance statistics and financial data. However, ICBC is committed to providing policyholders with the information they need first to understand where the corporation is seeking to go in the near future and second to evaluate ICBC's performance against that planned direction.

Introduction

The insurance industry generally and ICBC specifically are entering a challenging period. Returns on equity for the property and casualty insurance industry are at historic lows. Claims costs are continuing to rise and are creating significant pressure on rates. Dramatic rate increases for automobile insurance are occurring in a significant number of Canadian jurisdictions. Insurers are withdrawing or not writing new business in a number of markets. Investment returns are low due to volatile equity markets and low interest rates. In addition, competition is expected to increase in British Columbia with the provincial government's recent Core Services Review decision regarding ICBC and the auto insurance industry. A regulator will be established to provide oversight of the basic insurance product and to ensure basic insurance does not subsidize optional products.

In order to deal with these challenges, ICBC implemented a number of cost-saving initiatives in 2001 and 2002. For 2003, ICBC will be building and expanding on its recent successes in moving the corporation to become more responsive. The corporation is preparing itself to be more competitive over the coming three years. To accomplish this, ICBC has consequently altered its strategic focus to the following goals:

- become more competitive in all aspects of the corporation's activities
- increase customer focus ensuring our actions are in the best interest of policyholders
- be revenue driven and fiscally responsible as a means to ensure ICBC is financially sustainable and to keep insurance premiums as low as possible
- develop personally accountable, capable and engaged people who strive to make their strongest contribution to ICBC's success.

Through achievement of these business goals, the corporation will continue to optimize benefits to ICBC's customers. This Service Plan describes in greater detail how ICBC will accomplish these goals within its current operating environment and how ICBC will evaluate its progress in achieving these goals.

ICBC Overview

This section is intended to provide an understanding of ICBC's mandate and core products and services.

ICBC is a provincial Crown corporation established in 1973 and defined by the Insurance Corporation Act, to provide universal auto insurance to BC motorists. At the time it was set up, ICBC was the sole provider of auto insurance. Soon after inception, the legislation was amended to allow private insurance companies to compete for the optional auto insurance business. As part of its current mandate, ICBC also provides vehicle licensing and registration services on behalf of the province. In 1996, ICBC merged with the former Motor Vehicle Branch (MVB) assuming responsibility for driver licensing services, road safety programs and commercial vehicle compliance (e.g. weigh scales and commercial vehicle inspections).

ICBC is currently one of BC's largest corporations and one of Canada's largest property and casualty (P&C) insurers. Through its operations, ICBC employs approximately 5,200 full-time equivalent employees. ICBC's customers are those who pay premiums or fees and consist of all licensed and insured motor vehicle owners and drivers in BC. ICBC also provides claims services to those involved in crashes or victims of auto crime. ICBC's business partners range from brokers, members of the auto repair industry and defense lawyers, to health service providers. These suppliers are involved in different aspects of the insurance, claims and licensing processes, such as the purchase of insurance, registration and licensing of the vehicle, repair or replacement of vehicle damage and the provision of medical and rehabilitation services.

The Insurance Corporation Act and the Insurance (Motor Vehicle) Act govern the corporation. As a Crown corporation, ICBC is also subject to legislation such as the Budget Transparency and Accountability Act, the Financial Information Act, the Financial Administration Act and the Freedom of Information and Protection of Privacy Act. In addition, the corporation has administrative, enforcement and other duties and obligations under the following Acts:

- Motor Vehicle Act
- Commercial Transport Act
- Transport of Dangerous Goods Act
- Motor Carrier Act
- Motor Vehicle (All Terrain) Act

INSURANCE & CLAIMS

All motorists in BC are required to purchase a basic package of ICBC Autoplan insurance that provides minimum \$200,000 third-party legal liability coverage, accident benefits, underinsured motorist protection, uninsured and hit-and-run motorists protection and inverse liability coverage. ICBC is the sole provider of mandatory auto insurance. The value and purpose of insurance to customers lies in its ability to provide customers with the additional financial protection they need should they be in a crash. As a business, the primary function of insurance is to spread risk through the collection of premiums from many to pay for the losses of a few - where the amount of premium reflects the risk of loss. The basic package provides coverage within Canada and the United States. Basic insurance has some of the most extensive coverages among jurisdictions in Canada including an allowance for no-fault accident benefits coverage up to \$150,000 per person for medical and rehabilitation expenses. By comparison, in Alberta and the Maritime provinces, no-fault accident benefits are limited to \$10,000-\$50,000 per person.

The auto insurance systems in BC, Alberta and the Maritime provinces are tort based which means that claimants have the right to sue the at-fault person for damages. Conversely, Manitoba and Quebec are no-fault jurisdictions with government run auto insurance systems. No-fault insurance restricts the injured party's right to sue for damages. Ontario uses a threshold system, a hybrid of both the tort and no-fault model. Effective January 1, 2003, Saskatchewan, also a government-run system, will offer residents a choice between a new tort based insurance product (small threshold) and no fault insurance coverage.

In addition to providing basic insurance, the corporation competes with other automobile insurance companies in the sale of extended third-party legal liability and other optional insurance coverages such as collision and comprehensive coverage. Both the basic and optional insurance coverages are defined in the Insurance (Motor Vehicle) Act and its regulations.

ICBC receives in excess of \$2.7 billion in insurance premiums from more than 2.7 million customers annually. ICBC subsequently invests these premiums until they are needed to pay claims to provide benefits for customers. Through a network of over 900 independent brokers located throughout the province, ICBC provides Autoplan products, vehicle registration and licensing services. ICBC pays approximately \$200 million annually in commissions to brokers. ICBC has an ongoing strategic partnership commitment with brokers to deliver its products and services. In 2002, a five year Strategic Accord was renewed between ICBC, Credit Union Insurance Services Association (CUISA) and the Insurance Brokers Association of BC (IBABC). The Accord is subject to confirmation by both associations and ICBC following the completion of ICBC's Core Services Review that occurred in November 2002. Discussions to confirm the Accord are anticipated to occur in January 2003.

The corporation currently processes approximately 1.1 million claims per year through a province-wide network of 40 claim centres, telephone claims call centres and other claims-handling facilities. ICBC is forecasting 2002 claims costs to be approximately \$2.2 billion.¹ This amount does not include ICBC's expenses for claims services and road safety, other insurance and

As ICBC's 2002 financial statements are not finalized as of December 31, 2002, outlooks for 2002 have been provided. These are the best outlooks available at the time of preparing the service plan. For final numbers, please consult ICBC's 2002 Annual Report once it is available. Data for the financial information contained in this plan are from ICBC's corporate financial systems, which are audited annually by the corporation's external auditors.

non-insurance expenses. Injury and material damage claims incurred are forecasted to be \$1.2 billion and \$1 billion respectively in 2002. To service these claims, ICBC contracts with suppliers and service providers in a variety of industries, including auto body and glass shops,

towing companies, doctors, physiotherapists, other medical service providers and legal defense counsel in all parts of the province. These suppliers and service providers are involved in helping claimants to repair their vehicles, recover from injury, or settle their claims with ICBC.

LOSS MANAGEMENT AND ROAD SAFETY

ICBC invests in loss management and road safety programs to reduce crashes and auto crime, which benefit our customers by minimizing insurance premiums. The following are examples of crash and theft prevention programs:

- With the Road Improvement Program, ICBC works with key partners, such as the Ministry of Transportation and municipalities, to make improvements to high-crash locations, especially intersections and to ensure safety issues are considered at every stage of development of new roads and communities. This program continues to be very successful. The costs of safety projects are shared with provincial and municipal road authorities and the projects require an acceptable rate of return prior to proceeding.
- The Graduated Licensing Program is designed to help new drivers be safe while they are gaining driving experience.
- Intersection Safety Cameras encourage motorists to obey traffic signals. ICBC has equipped 120 high crash locations for these cameras.
- Partnerships with police, through the Targeted Traffic Enforcement Program and the Enhanced CounterAttack Roadcheck programs have reduced traffic crashes. ICBC sponsors the Bait Car program and facilitates financial support from several private companies.
- Innovative ideas, like the Road Anti-Icing Program developed in Kamloops and changeable road advisory message boards are being

implemented. Advancements in vehicle design are also being made and devices such as ICBC's Head Restraint Measuring Device are being employed by vehicle manufacturers and others around the world.

The future will see more partnerships with public agencies and private businesses. These partnerships are intended to confirm road safety as a shared priority. An example is the Safer City project, which brings community groups together to develop and implement a local integrated road safety plan.

Since 1998, ICBC has invested over \$280 million in loss management and road safety programs to reduce crashes and auto crime. In 2002 alone, ICBC expects to spend approximately \$40 million on loss management and road safety. Evaluations validate our programs have delivered strong claims cost reduction benefits. The success of these programs relies upon the support of agencies as well as partners working with ICBC to make BC roads safer. These partners include the enforcement community, the Attorney General, the Ministry of Transportation, the Ministry of Public Safety and Solicitor General, municipalities, community groups and volunteers.

NON-INSURANCE SERVICES

In addition to traditional insurance services, ICBC provides a number of non-insurance services that complement ICBC's interest in minimizing the number and severity of crashes on BC's roads.

Vehicle Registration and Licensing

Since the early 1980's, the corporation has been collecting vehicle registration and licensing fees and managing the issuance of vehicle license plates and decals inventory on behalf of the provincial government. ICBC provides these services through its network of brokers who perform registration and licensing functions at the time of insurance purchase as well as additional non-insurance functions such as fine collection. The synergies inherent in the current process allow the corporation to maintain low distribution costs and perform these functions efficiently for the benefit of all 2.7 million policyholders. The linkage between the requirement for vehicle registration and licensing prior to the issuance of insurance minimizes the number of unlicensed and uninsured vehicles operating on BC roads. This benefits our customers by ensuring insurance coverage is available should they be in a crash and by reducing the cost of insurance.

Driver Licensing and Fines Collection

ICBC provides driver-licensing services via 120 points-of-service including Driver Service Centres, Expressways, Appointed Agents and Government Agents' offices throughout BC. On behalf of the provincial government, the corporation also collects motor vehicle related debts as well as fines issued under the Offence Act.

In 2002, spending in this area is forecasted to be approximately \$34 million in operating costs with 457 full-time equivalent employees². ICBC is forecasted to collect and remit to government over \$419 million annually in vehicle registration, license fees and fines. ICBC also has been a leader in the area of driver training and education using programs such as Graduated Licensing to reduce the incidence of crashes among new drivers.

Compliance

In 2002, ICBC provided commercial vehicle compliance programs using 35 fixed weigh scales and 37 portable weigh scales located throughout the province. These programs were delivered primarily to support safe transportation and commerce within BC. Programs included enforcement of vehicle safety requirements and protection of road infrastructure. In 2002, 290 full-time equivalent employees³ worked in this area with expenditures of approximately \$24 million. As part of the implementation of ICBC's Core Services Review decisions, the commercial vehicle compliance and motor carrier functions will be transferred to the provincial government in 2003.

Discussions are underway regarding ICBC's commitment to paying the costs for Compliance Operations for a three year period. These costs are reflected in the targets contained in this plan.

UNDERSTANDING ICBC'S FINANCES

The following figure helps explain ICBC's revenues and expenditures required to provide the above services.

Figure 1 Understanding ICBC's Finances (Outlook as of December 31, 2002)



GOVERNANCE

Governance defines the roles, relationships, powers and accountability among shareholders, the Board of Directors and management.

Governance of a Crown corporation requires that responsibility be clearly articulated for acting in the public's best interest and for meeting public policy objectives. For ICBC, these requirements are contained in the Insurance Corporation Act, the Budget Transparency & Accountability Act, the Financial Information Act, the Financial Administration Act and the Freedom of Information and Protection of Privacy Act. In addition, a governance framework is being developed that is designed to ensure ICBC has the appropriate mechanisms required for proper functioning of the Board and a commonly understood description of the various areas (e.g. Board, management, government) involved in guiding and managing ICBC activities. An essential component of ICBC's governance is a clear and mutually understood definition of the relationship between ICBC and government. Through a Shareholder Letter of Expectation, ICBC is working with the Ministry of Finance and the Crown Agencies Secretariat to clarify the roles and responsibilities of government and its agencies and ICBC's Board of Directors. This process is being led by the Crown Agencies Secretariat.

Appointed by the Lieutenant-Governor-in-Council, a nine-member Board of Directors guides the corporation in fulfilling its mandate. Board members set the direction and goals of ICBC. The individual members of the Board contribute their knowledge and experience individually as part

of the full Board and as members of the Audit Committee, Compensation Committee or Investment Committee. The Board is also responsible for ensuring the overall financial health and operating results of the corporation. The President, Chief Executive Officer and management are responsible for the day-to-day administration and operation of the corporation.

ICBC has one wholly owned subsidiary, ICBC Properties Ltd. (IPL). IPL was created in 1999 with responsibility for managing real estate held within its investment portfolio, including real estate development. IPL has its own Board of Directors and executive management team. IPL's governance structure is set out in the company's articles of incorporation. The subsidiary's Board of Directors is accountable to ICBC's Board of Directors and consists of three members. Of these members, two directors also serve on ICBC's Board of Directors. Collectively, they provide relevant business, investment and real estate experience to the operations of the subsidiary.

During the period of this Service Plan, ICBC will come under the oversight of an independent, arm's-length regulatory body designed by the provincial government. The regulator's purpose is to protect the interests of policyholders, to ensure ICBC is managing the corporation efficiently in the best interests of customers and to ensure basic insurance does not subsidize optional products. The regulator will form another component of ICBC's governance framework.

Planning Context and Key Strategic Issues

This section is intended to provide an understanding of the opportunities, challenges, issues and risks that ICBC is facing from the external-operating environment as well as from within the corporation. The Planning Context helps explain the goals, objectives and strategies ICBC has chosen to undertake over these next three years and described later in this document.

Insurance is a complex business impacted by many factors which represent the planning context for the development of ICBC's three-year strategy. A number of major issues and risks currently face the property and casualty industry generally and ICBC specifically.

INDUSTRY TRENDS

After recent years of soft pricing and poor underwriting results, the property and casualty sector continues to face significant financial challenges.

Return on Equity

The industry as a whole posted a 2.7 percent average return on equity for the four quarters ending June 30, 2002 - well below the property and casualty industry's historical average of 10 percent. 2002 may in fact be the insurance industry's second worst year on record with 2001 being the least profitable.⁴ An industry outlook produced by the Insurance Information Institute in the United States indicates that a 3 to 4 percent return is expected for the 2002 year.⁵

Figure 2 Return on Equity Private P&C Insurers⁶



⁶ Insurance Bureau of Canada, Perspectives, September 30, 2002. Results of 4 quarters ending June 30, 2002

⁴ Insurance Information Institute, "Special Report: Earlybird Forecast 2003", January 2, 2003

⁵ Insurance Bureau of Canada, Facts of the General Insurance Industry in Canada 2002 (Toronto: Insurance Bureau of Canada), p. 14

Rate increases to achieve rate adequacy

Significant increases in auto insurance rates are occurring across Canada. Many in the insurance industry see this as necessary to maintain rate adequacy and to generate a reasonable rate of return for their shareholders in the face of rising claims costs and modest investment returns.

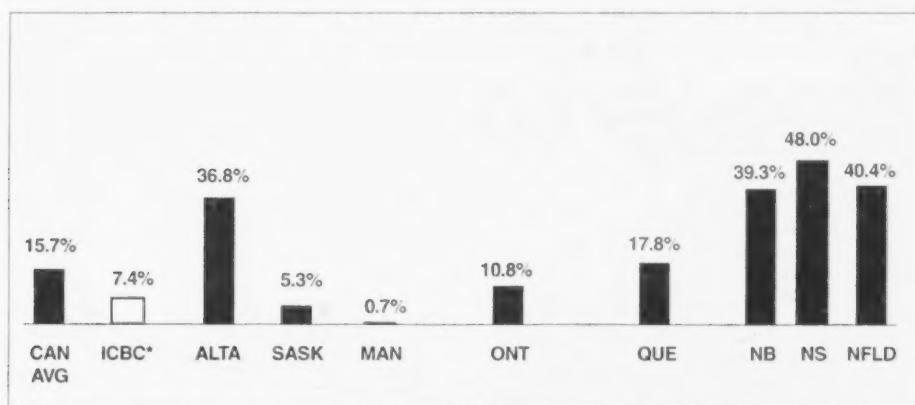
Pressure continues to be exerted by insurers on

regulators to permit continued increases in rates.

Speculation by industry analysts and professionals indicates 2003 rates are unlikely to decrease if the industry is to return to financial health by 2004, particularly given the current investment market.

The following figure summarizes the rate increases experienced in many Canadian jurisdictions.

Figure 3 Summary of Rate Increases in Canada for the Period September 2001 to September 2002



Source: Statistics Canada, "Consumer Price Index Table 326-0001", www.statcan.ca

* Source: ICBC Financial Systems

Exiting and/or limiting market share

Insurers are withdrawing, reducing, or limiting their book of business in order to maintain profitability or to limit their exposure. This has been observed in Alberta, Ontario and the Atlantic provinces. One company ceased taking new auto business in Alberta in 2002 for its own book, no matter how good the motorist's record.⁸ Another company, which specializes in non-standard auto, pulled out from all regions except Ontario.⁹ In the Atlantic Provinces, another company left the market altogether. The governments of New Brunswick, Nova Scotia and Newfoundland have

all initiated reviews of auto insurance to address issues such as insurance availability, pricing and the insurance product itself.

Rising claims costs

Until recently, the profitability of auto insurance products across Canada has been decreasing with the exception of Quebec. Claims incurred increased 9.5 percent overall in 2001 for the P&C industry.¹⁰ Cost increases within the bodily injury area have been driven by a number of factors depending on the jurisdiction. Some of these include increases in soft-tissue injury (whiplash)

⁸ Insurance Information Institute, "Special Report: Earlybird Forecast 2003", January 2, 2003

⁹ Thompson's Daily Insurance News Service, November 5, 2002

¹⁰ Thompson's Daily Insurance News Service, October 29, 2002

A.M. Best Company Inc., Special Report, September 23, 2002

claims, insurers having to shoulder a larger portion of medical costs, medical inflation, use of more expensive alternative treatments by claimants, fraud and increased legal representation. In terms of material damage, increases in auto theft and crime as well as inflation in the auto repair sector are key drivers of the cost trend. However, the current sluggish economy also adds to concerns about fraudulent claims, arson and theft.

Lower investment income

Investment income is typically a large component of an insurance company's revenues to offset losses on the insurance products, fund growth and provide a component of profit and return to shareholders. Investment market volatility, negative equity returns and deepening investor uncertainty have dominated financial markets in 2002. For the year ending December 31, 2002, world equity markets declined 20%, US equity markets declined 22% (S&P 500 index), Canadian equity markets were down 12% (S&P/TSX composite index) and non-North America equity was down 16% (MSCI EAFE index). These declines have only been partially offset by gains in the bond markets, which have earned 8.7% over the same period as a result of a decline in interest rates in North America. Equity markets have experienced one of the largest bear markets in the past one hundred years, with bonds outperforming stocks for the third consecutive year, a phenomenon not seen since the 1930's. The significant downturn in investment income requires insurers to focus on driving profitability from their insurance products.

Higher reinsurance costs

Reinsurance is purchased by insurance companies to protect their insurance risks from events such as a catastrophic loss (e.g. earthquake). The outlook for the reinsurance market is poor due to World

Trade Centre losses, European floods and the exposure to the performance of declining financial markets. Low interest rates and the poor equity market returns significantly impact reinsurers due to their higher dependence on investment returns than traditional insurance companies. Many of the reinsurers have seen their debt downgraded and share prices tumble. In response, reinsurers are increasing prices to improve their profitability. This represents increased costs to insurers who purchase reinsurance.

Industry Structure

Global competition and capital markets continue to pressure the financial services sector to evolve. Regulation changes continue to blur the four traditional pillars (banks, trusts, brokerages and insurers) of the financial services industry as evidenced by various mergers and acquisitions. Multinational players continue to look for opportunities to expand their operations throughout North America and to achieve greater economies of scale and returns.

Strategic alliances are another means for insurers to grow their organization and diversify their business risk without investing large capital in new markets. Major insurers are partnering with other financial institutions and distribution channels to take advantage of opportunities for cross-selling, achieving economies of scale and creative pricing strategies. These products include life, mortgage, home, travel, health, credit and disability insurance. Where regulations permit, there has also been partnering to provide investment and other financial services.

Technological Trends

The Internet provides an opportunity for competitors to have direct access to consumers and brokers. Some insurers and brokers are exploring the use of multiple distribution channels in an effort to increase competitiveness and reduce transaction costs in specific market segments.

One example of this includes the Centre for the Study of Insurance Operations' Insurance Portal that seeks to provide a single entry Web-based site for Canadian brokers and P&C insurers. This portal is currently being tested and is expected to move to pilot phase in 2003.¹¹

REGULATORY TRENDS & PRODUCT CHANGES

As regulators are dealing with rising insurance rates, governments are finding themselves becoming involved in the issues facing the insurance market. Insurers and consumers are pressuring governments to examine insurance products and to find legislative solutions to rising cost and availability issues.

- In the Atlantic Provinces, insurers are pressuring for tort reform.
- In Ontario, the government has passed a Bill containing reforms to Ontario's auto insurance legislation and is developing regulations to address the cost of providing insurance.¹²
- Saskatchewan is in the process of introducing a new auto insurance product designed to allow the policyholder the choice between a tort and no-fault product.
- Although no changes have been proposed in Alberta, insurance rate increases combined with the limiting of business by certain insurers in the

province, have raised suggestions about government involvement.¹³ The Alberta Ministry of Finance has issued a discussion paper on two tort reforms which have been proposed by the Insurance Bureau of Canada.

Overlying these insurance specific changes, there appears to be an overall push towards greater regulatory harmonization and deregulation across the entire financial sector to improve efficiency and competition. In BC, this is occurring through the province's deregulation initiative to reduce the regulatory burden by one-third by June 2004 and by the planned introduction of a new regulatory framework for auto insurance. Harmonization and deregulation can also be seen in the move towards financial "super-regulators" in Ontario, Quebec and various European states, such as Great Britain.

CUSTOMER AND DRIVER TRENDS

BC's population has been growing at a conservative annual rate of 1.5 percent.¹⁴ One of the key characteristics of the current demography within this population is the aging of the baby boomers. This group is particularly accustomed to driving and being mobile and represent an important segment to the insurance business in BC.

As important as the growth and aging of drivers is population density and traffic congestion. This is particularly true of the Lower Mainland and other growing communities in BC. These factors contribute to the overall probability of loss.

¹¹ Anna Sharratt, "Portal Promises: Can the biggest broker project to date deliver?" Canadian Insurance Magazine, February 2002

¹² Thompson's Daily Insurance New Service, November 4, 2002

¹³ Thompson's Daily Insurance New Service, November 6, 2002

¹⁴ Government of British Columbia, BC Stats, 2002, population over 15 years of age

¹⁵ Insurance Bureau of Canada, "IBC brochure lists Canada's top stolen vehicles," November 5, 2002

¹⁶ Ministry of Public Safety and Solicitor General, Police and Crime Summary Statistics, 1992 - 2001, www.pssg.gov.bc.ca, p. 173-174

Auto crime is a growing issue in communities across Canada. In the past year, insurers in Canada spent over \$600 million on un-recovered stolen vehicles and components.¹⁵ BC had one of

the highest per capita auto theft rates in Canada, with some 33,000 stolen vehicles reported each year.¹⁶ The Lower Mainland had a dramatic increase in auto theft from 2001 to 2002.

ICBC ASSESSMENT

Since 2001, ICBC has made significant progress in addressing issues and risks and to take advantage of the company's core strengths. The following provides an overview of work done to date and status of the key issues, risks and opportunities facing the corporation and serves to contextualize the strategy for 2003 to the end of 2005.

Core Services Review

On November 22, 2002, the provincial government approved the following three outcomes of the Core Services Review process for ICBC:

1. ICBC's commercial vehicle compliance and motor carrier functions will return to government. The return will occur as these functions fit better with government's law enforcement, security and inter-provincial and international trade responsibilities than with ICBC's core insurance and road safety mandate. Legislation is required to enact these changes.
2. ICBC will move under the authority of an independent, arm's-length regulatory body. An independent regulatory body will be designed by the provincial government to protect the interests of policyholders and to ensure ICBC is operating efficiently and in the best interests of customers. The regulatory body will:
 - Remove from Cabinet the responsibility for setting rates
 - Impartially administer consistent public policy as set by Cabinet

- Ensure customers are treated fairly
- Ensure basic insurance does not subsidize optional products
- Ensure an open and transparent process for basic insurance rate-setting including greater public input to rate reviews
- Permit optional insurance rates to be governed on a business basis.

3. ICBC will retain the balance of its operations. ICBC will continue to aggressively look for ways to contain premium increases while providing quality products and services. The changes made over the coming years will create an environment flexible enough to allow any further change desired — from minor to major — without major disruptions to customers or the market.

For the 2003 - 2005, ICBC will undertake the internal changes required to achieve and support the above outcomes.

Customer Service Performance

In 2002, ICBC sought feedback from customers regarding their perceptions of the products and services provided. Staff from all areas of the company, including front-line staff, listened first hand to customer perceptions. Customers conveyed five primary messages during the focus groups including recommendations that ICBC:

- know its customers better.
- communicate and demonstrate that customers receive excellent value from ICBC.

- communicate and demonstrate that it values its customers.
- win customers' trust by providing service choice.
- improve the fairness of its processes.

These were also identified in the 2002 corporate risk assessment. To address these challenges, ideas and initiatives were developed that have led to enhanced training for staff, improved communication of our products and services and improved claims handling processes. Other initiatives are underway to explore further opportunities for servicing customers. ICBC has made some recent improvements to customer satisfaction, striving to understand and meet customers' needs remains a priority.

People Performance

ICBC's core strength is its people. The corporation's success to date is predicated on the commitment and efforts of its staff. However, 2001 marked a major milestone for the corporation with a major departure of staff and the associated implications for ICBC's activities. Today, the corporation employs approximately 5,200 full time equivalents (FTEs), a reduction of over 1,300 FTEs from April 30, 2001.

ICBC has begun to implement required processes and systems that will support the organization in making the required cultural shift to a performance-based competitive company. The corporation introduced a performance management system to ensure performance expectations are explicit and people are held accountable for meeting those expectations. ICBC changed management remuneration to align with the practices of holding people personally accountable for results. An effective working relationship with the Office & Professional Employees International Union (OPEIU), which represents the corporation's

bargaining unit staff, is an important dynamic for the organization. In 2003, ICBC and the OPEIU will be working together to develop a new collective agreement for bargaining unit staff which will support our people working in a more competitive organization.

Financial Performance

ICBC has experienced significant financial challenges due in part to the six year rate-freeze that ended in the fall of 2001, the road safety dividends that drew down retained earnings by over \$260 million, the Central City real estate investment and the mandated pricing policy for optional insurance. Currently, the low level of retained earnings are a financial risk to the corporation and its policyholders especially when compared to industry solvency standards.

In light of these challenges, ICBC has made a significant start in getting its financial house in order. For example, the corporation has implemented an aggressive cost reduction program (approximately 24 percent reduction in operating and administrative costs in 2002 over 2000) and is continuing to implement new loss management and road safety programs to control claims costs (e.g. new Bait Car program to combat auto theft). ICBC has also realized cost reductions by reviewing its donation policy and focusing the limited funds on causes that directly relate to the corporate mandate. ICBC has also achieved operational savings with changes such as the business model re-engineering of its corporate vehicle fleet.

For the first time, ICBC reduced the number of claims centres in 2002. This move optimized resources and addressed inefficiencies of claim centres that were operating below capacity. The closing of claim centres included the re-allocation

of some business functions to the Telephone Claims Department and serves to highlight changes in ICBC's business model and technology requirements. There will be continuing reviews of operations to improve the efficiency, effectiveness and cost structures of existing systems, capital assets and business processes to ensure they support current and future business needs.

ICBC and the insurance industry faced business environment challenges with the rise in claims costs due mainly to increased theft, total losses and injury claims. For 2002 compared to 2001, ICBC has experienced a 3.0 percent decrease in the number of claims, a 6.3 percent increase in the average cost of injury claims and a 5.6 percent increase in the average cost of physical damage claims. Of particular concern is the 7.0 percent increase in the number of vehicle theft claims over 2001.

While ICBC continued its comprehensive review of all business functions including use of facilities, claims costs continued to rise and rate increases were still required. As part of ICBC's strategy to be revenue driven and fiscally responsible, inadequate rates had to be addressed. In 2002, BC's policyholders saw an average premium increase of 7.4 percent. As part of this premium change, some policyholders experienced increases or decreases to their premiums to correct rating inequities. In late 2002, the provincial Cabinet approved insurance premium changes for 2003. Overall, including private passenger and commercial vehicles, the average 2003 increase was 2.0 percent for basic and 8.9 percent for optional for a combined average increase of 4.8 percent.

Volatile financial markets and poor equity returns had a negative impact on investment income and overall portfolio returns for the industry as well

as ICBC. ICBC's 2002 and 2003 returns of investment are forecasted to be 5.60 and 5.82 percent while in recent years, ICBC's return on investments has been approximately 8 percent. This two percent difference translates into a reduction of over \$110 million in investment income.

As of December 2002, ICBC is forecasting a net income of \$33 million compared to a budgeted loss of \$10 million. The improvement is due to operating cost savings and higher than planned premiums earned, partially offset by an increase in claims costs and lower investment income. This is in contrast to a loss of \$251 million (which included a \$100 million provision for the write-down in the value of Central City in Surrey and \$40 million for restructuring) in 2001. While ICBC has made significant inroads in 2001 and 2002 to improve its financial position, other factors such as rising claims costs and volatile equity markets make 2003 a challenging year for the organization.

Technology Systems

With recent business process improvements and enhanced customer service offerings, current technology and systems infrastructure needed to be examined to explore ways to better support the overall goal of the corporation. Efforts are underway to examine opportunities to incorporate systems and processes to serve customers more efficiently, meet employees' work related needs and streamline business procedures. ICBC is also using the Internet as a business tool to improve customer service, reduce operating costs and overall, gain a competitive advantage. For example, the Autoplan Extranet was developed as a web interface for brokers to enhance their business transactions with our customers.

Strategic Context

This section is designed to provide a description of ICBC's desired vision of success (the vision), a description of our business (the mission) and the fundamental values we use to guide how we achieve both the mission and vision. The mission statement describes the business we are in, including our products and services, the value we bring to our customers and how we do this successfully. The values are reflected in all of our actions, strategies and corporate policies. These values are fundamental for guiding ICBC now and in the future. These statements are designed to ensure ICBC runs the business for the benefit of its customers.

VISION

ICBC will be the leading insurance company in all aspects of its business, operating competitively and valued by its customers.

MISSION

ICBC will be the insurer of choice delivering insurance products, licensing services, road safety and other loss management initiatives that are superior, innovative and valued by our customers at the lowest cost possible.

Our reputation will be as a dependable, fair, equitable and competitive service provider.

We will accomplish this with our dedicated employees working in a performance based culture achieving operational excellence with the assistance of our independent broker force and other business partners.

VALUES

Integrity – We value people by treating others with respect and dignity. We are honest by representing our intentions and ourselves truthfully. We will be accountable for our performance and ensure decisions made are supportable.

Commitment – We demonstrate commitment as employees by doing our best work at all times. ICBC leadership demonstrates commitment to employees by creating a work environment that supports employees in making their best contribution for the benefit of the customer. We are committed to operating in a cost-effective manner and will continue to seek ways to improve efficiency.

Dedication to the Customer – We measure our success by our customers' belief that ICBC products and services provide good value for their money. We provide excellent customer service by approaching every customer interaction as an opportunity to create a positive customer experience.

Strategic Goals, Objectives, Strategies and Performance Measures

This section is intended to provide an understanding of the strategies and results ICBC is committing to accomplish over the next three years.

ICBC's strategy is designed to ensure its long-term success by addressing the risks and opportunities identified earlier in the Planning Context and by ensuring the corporation has the required internal capacity. ICBC's overall strategy is sufficiently robust and flexible to prepare the corporation to be successful in any likely futures for automobile insurance in BC.

Implementation of ICBC's strategy is designed around four corporate goals with corresponding objectives. These goals and objectives reflect the outcomes necessary to achieve the vision, identify key performance areas critical to achieving intended results and mitigate strategic risks faced by the corporation. The following section describes these four goals and associated objectives as well as the strategies ICBC plans to undertake.

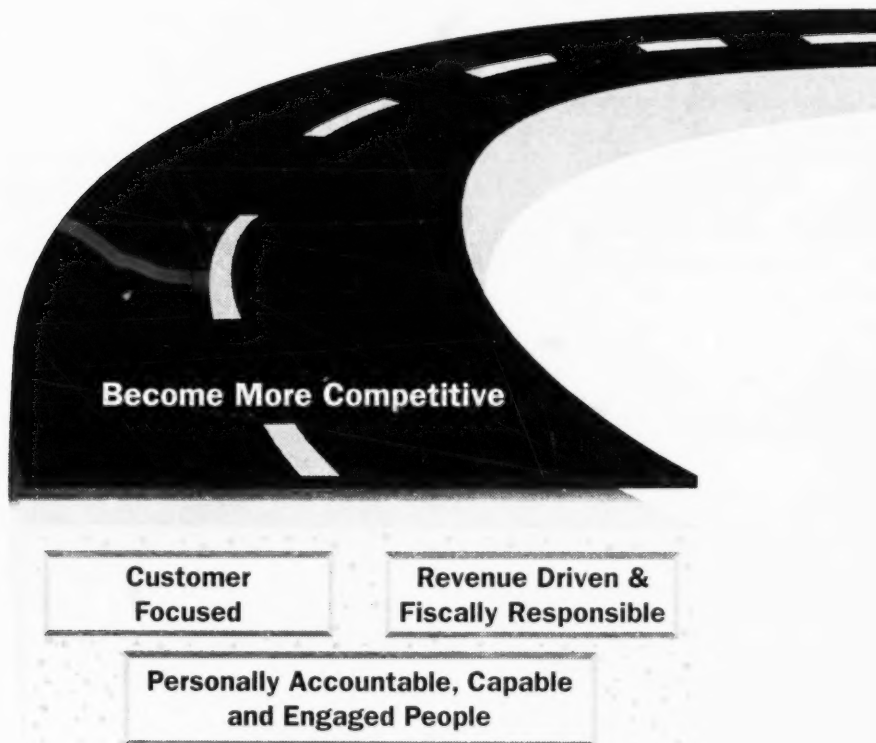
Key to success is the measuring and monitoring of results to ensure that ICBC is proceeding towards its vision. ICBC has carefully selected the key corporate performance measures it needs to assess the corporation's progress towards the objectives. The corporation has selected a mix of financial and non-financial measures and has adopted, when possible, industry standard measures to facilitate benchmarking with other insurance companies. However, ICBC is a Crown corporation and this may impact the comparability of some of the performance measures. Well-chosen and implemented strategies will ensure ICBC

achieves its goals and objectives and mitigates its risks. The targets reflect ICBC's priorities and emphasis. Some targets are deliberately more aggressive than others as they further identify the areas of strategic focus for the corporation. ICBC systematically reviews and revises its targets as a result of better information such as changes in the external environment. The revised targets are determined to reflect the same challenge originally intended, unless a strategic decision has been made to change the amount of emphasis on a particular strategy. For example, ICBC may decide to place a greater emphasis on one particular area, so the corporation will revise the associated targets to make them more challenging. As ICBC's people, financial, physical, technology and capital resources are finite, the corporation will carefully choose where to allocate its efforts. The targets reflect these resource allocation decisions and drive ICBC's budgeting process.

ICBC uses the following objectives, measures and targets to drive individual performance management and to reflect the accountabilities and expectations for performance and delivery of results. ICBC uses performance management as a means to align each employee's efforts with the corporate goals and objectives contained within this Service Plan. Overall, this is a collective way to focus everyone on the organization's success and to make ICBC's strategy come alive.

ICBC'S STRATEGIC GOAL MAP

The following diagram demonstrates the inter-relationship among the four corporate goals. ICBC needs to succeed in all four areas to successfully achieve its vision of success.



BECOME MORE COMPETITIVE

Given the move to increased competition in auto insurance to benefit customers, the corporation has determined it needs to improve its ability to respond to a more competitive environment. This goal represents an exciting challenge for ICBC and includes moving towards industry-standard financial requirements for the optional business. This goal also ensures the competitive side of the business is sustainable in an increasingly competitive market.

Becoming more competitive also includes ensuring our products are priced appropriately for the risks they represent. ICBC will work to develop financially sustainable and independent lines of business and products for basic and optional insurance. ICBC will ensure its products are appropriately priced and that each group of customers is paying the premium reflecting the risk they represent. For basic insurance, ICBC will continue to follow public policy and use non-discriminatory underwriting practices to ensure all vehicle owners and drivers can access affordable auto insurance.

Finally, becoming more competitive involves all ICBC staff having the skills, knowledge and abilities to support the organization in anticipating and successfully responding quickly to changes in the insurance market. Associated with this is the need to ensure ICBC has the appropriate technology infrastructure to make these responses.

Objectives

Deliver innovative, competitive and tailored optional insurance products and services that are valued by customers, self-funded and priced based on risk. This includes:

- Moving towards industry standard financial requirements for the optional business.
- Operating successfully under a regulatory framework that aligns with industry standards and balances public interest.
- Effectively monitoring performance and bench-mark to industry peers
- Develop capabilities to respond quickly to market conditions.

Achieve planned net income.

Strategies

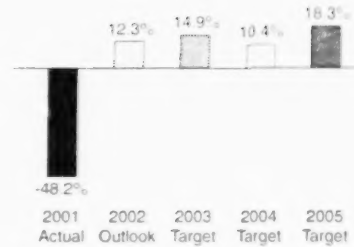
- Focus on the bottom-line to rebuild retained earnings to appropriate levels
- Align internal business practices to comply with future regulatory requirements
- Continue the move towards risk-based pricing for optional insurance
- Adjust insurance premiums to ensure appropriate rates are being charged for the losses incurred by each rate group
- Continue with the implementation of a high performance work environment
- Put in place the processes, systems, technologies and infrastructure required to respond quickly to changes in market conditions

Performance Measures

Return on Equity –

This is a standard financial measure that indicates the change in value to a shareholder for investing in an organization.

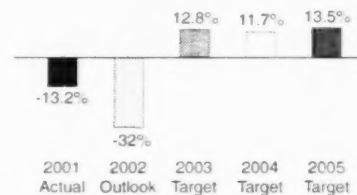
This measure enables ICBC to measure its progress towards becoming more competitive and moving towards industry financial standards. With this measure, the provincial government will be able to measure the financial return on its investment in ICBC.



Source: ICBC Financial Systems

Return on Equity (adjusted 2 year rolling) –

The standard industry measure takes two years' worth of net income and divides it by the average retained earnings maintained during the year plus the average of the same for the prior year. ICBC has adopted this calculation in order to benchmark with other insurers. The 2001 P&C industry benchmark for this measure is 9.3%.¹⁷ As ICBC incurred a net loss of \$251 million in 2001, the 2001 and 2002 figures are negative due to the two-year rolling average calculation. Private companies are required to maintain larger financial reserves than ICBC being a Crown corporation. This difference in reserve level affects the denominator used in this measure and needs to be taken into account when evaluating ICBC's performance.



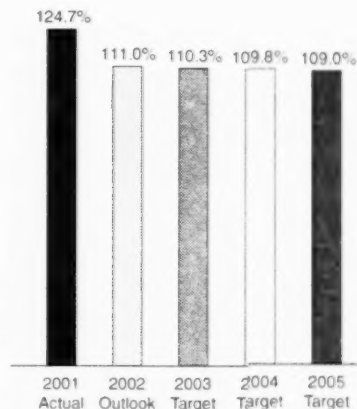
Source: ICBC Financial Systems

Combined Ratio –

The combined ratio is a key measure within the insurance industry of overall profitability. This measure is calculated as the ratio of costs (claims costs, claims related costs, administrative costs and non-insurance costs) to insurance premium dollars earned. A ratio of below 100 percent indicates an underwriting profit while a ratio above 100 percent indicates an underwriting loss.

ICBC's combined ratio is higher than the 2001 industry average of 108.6¹⁸ percent due to the following factors:

- While private insurers use their investment income primarily to provide a return to shareholders, ICBC uses the income to offset the need for higher premiums.
- ICBC's operating costs also include approximately \$87 million in non-insurance costs, which are not incurred by other insurers.
- ICBC is also mandated to provide affordable insurance to all drivers in BC, especially the category of high-risk drivers. This also results in additional costs.



Source: ICBC Financial Systems

¹⁷ A.M. Best Canada Ltd. Best's Key Rating and Statistical Guide, Property & Casualty, 2002 Edition (2001 Operating results for Canadian P&C companies selling auto insurance). All benchmarks use Best's 2001 data as this is the most recent data available.

¹⁸ Ibid.

The targets established for 2003-2005 represent the cumulative impact of planned changes in premiums,

products and cost management initiatives intended to improve ICBC's combined ratio.

CUSTOMER FOCUSED

For ICBC to succeed in becoming more competitive, the organization must be focused on its customers. This includes better understanding customers' needs and expectations and delivering customer-valued products and services. For example, ICBC has recently made important claims service improvements. ICBC will improve claimants' confidence and satisfaction by improving the fairness of the claims settlement process. ICBC will also demonstrate that it values customers and generates value for its customers.

Objectives

Increase customers' support for ICBC as a result of informed opinions and a better understanding of the value and operations of the company.

This includes:

- Providing products and services that customers value.
- Increasing claimants' confidence and satisfaction in the settlement process by providing respectful, reliable, responsive, empathetic and fair service.

Strategies

- Enhance ICBC's ability to listen, collect and analyze customer feedback to assist in making better decisions regarding product and service improvements.
- Review existing products and services to identify and implement improvements with articulated customer needs.
- Align new product and service development with articulated customer needs.

- Refine the claims process to ensure claimants are satisfied with the settlement process.
- Provide customers with information that describes ICBC and the value it generates.
- Reduce the number of regulatory requirements placed on individuals, entities and activities.

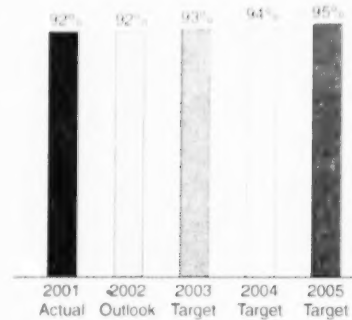
Performance Measures

The key customer service measures of performance for ICBC will be the percentage of satisfied customers. In 2003, the focus will be on meeting the targets established for the customer's experience with an Autoplan, driver service and licensing and claims transaction. The specific measures and targets established recognize the differences in the nature of these transactions. In the past, ICBC relied on the Percent Satisfied measure, which examined customer satisfaction for all lines of business and the Customer Confidence Index. More specific measures were considered necessary for 2003 to monitor the corporation's performance in different segments of its business and to track the impact of various customer service initiatives.

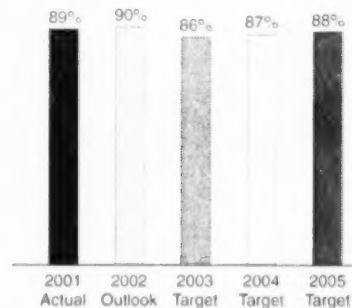
Autoplan Percent Satisfied –

Each year, ICBC's Autoplan brokers process approximately 2.7 million policies for customers. This measure represents the percentage of customers satisfied with a recent Autoplan transaction with ICBC and will be based on surveys of close to 1,000 Autoplan customers.

Historically, this percentage has been in the 90 percent range and is indicative of the positive relationship between customers and brokers. The increases in the targets for this measure reflect planned improvements to strengthen ICBC's broker relationship.

*Driver Services Percent Satisfied –*

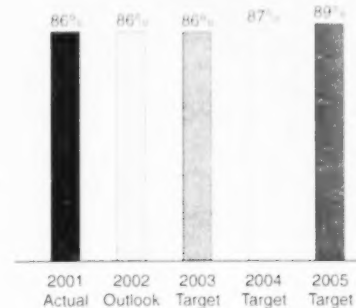
On an annual basis, ICBC performs over 1.2 million transactions relating to the issuance of driver licenses and driver exams. This measure represents the percentage of customers satisfied with a recent driver licensing transaction with ICBC. The transaction could relate to renewing a license, taking a knowledge test or undergoing a road test. The measure is weighted by the number of transactions for each type of service. ICBC's results have historically been in the 89 percent range. While ICBC continues to strive to reach high levels of customer satisfaction, the targets for this measure are lower due to increasing wait-times for drivers to take road tests. The increase in wait-times is due to the maturing of the Graduated Licensing Program and the associated growing pool of people who are eligible to take their exit road test coupled with new drivers entering the Graduated Licensing Program. ICBC is examining options to reduce the pool. Any resulting changes are expected to bring performance improvement, but they are not anticipated until 2004. As ICBC refines its plan to address this challenge, the corporation will assess the associated impact on performance for this measure. A sample of over 4,500 customers are surveyed annually for this measure.



Claims Percent Satisfied –

ICBC receives and handles 1.1 million claims each year through its claim handling facilities. This measure represents the percentage of customers satisfied with a recent claims transaction with ICBC and is based on a sample of over 16,000 claims customers.

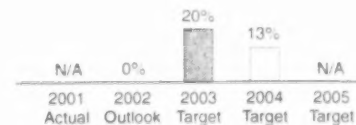
Starting in 2003, changes will be made in the sample selection and calculation of the measure. These changes are intended to allow ICBC to benchmark its performance in this area to P&C companies in Ontario. The 2001 average satisfaction results for Ontario were 86 percent. The ICBC targets established for 2003-2005 will be challenging for the corporation, but demonstrate ICBC's continued commitment to the customer.



These three customer measures above are developed by ICBC's Business Intelligence & Customer Research Department. The sample sizes reflect a margin of error of ± 3.0 percent, 19 times out of 20.

Deregulation –

In support of the provincial government's deregulation initiative, ICBC is working to achieve a one-third reduction in the regulatory burden on customers, suppliers and employees by June 2004. ICBC will measure its success in achieving this objective by the percentage reduction in "regulatory requirements" within the corporation's purview. A regulatory requirement is a compulsion, demand or prohibition placed on an individual, entity or activity. Such requirements are found in statutes, regulations and policies and procedures administered by ICBC. ICBC's current deregulation work focuses on the existing regulatory requirements; the targets do not include any changes resulting from the implementation of the independent regulator. This is a new measure to reflect this new initiative for ICBC.



This represents a recalculation of the 2001 and 2002 claims customer satisfaction results under the proposed method for 2003 and is provided here for comparative purposes.

REVENUE DRIVEN & FISCALLY RESPONSIBLE

ICBC made significant progress in 2001 and 2002 to reduce its operating expenses. The current challenge is to ensure the corporation continues to build on this progress while ensuring that resources are allocated appropriately throughout the corporation. ICBC will continue to find better ways to improve the efficiency and effectiveness of its internal cost structure, asset use and business processes. These changes will help reduce the pressure for premium increases. Key elements of success will include involving front-line staff in improving our performance in meeting customers' needs, focusing on realizing benefits from projects and initiatives and better leveraging of the corporation's data in decision-making.

For ICBC to become more competitive, the corporation will also need to grow its existing revenues and develop new revenue sources by enhancing existing and developing new products and services. ICBC will be focusing on products and services that leverage the corporation's current strengths and assets.

ICBC has had considerable success in managing claims costs over the preceding years through the introduction of new claims management initiatives and best practices. However, claims costs are still rising and ICBC, as all other insurers, is challenged to minimize claims cost increases.

Finally, ICBC's business success is partly dependent on receiving cost-effective, safe and high quality goods and services from suppliers. ICBC works with thousands of suppliers such as brokers who are the corporation's distribution channel. ICBC will be seeking to improve the value it receives from its suppliers in a way that meets both ICBC and the suppliers' business objectives.

Objectives

Excel in operational effectiveness and efficiency.

- Generate revenues from existing and new products and services that leverage our core competencies.

Minimize claims costs, severities and frequencies through claims and loss management and road safety.

Reduce the costs of goods and services we purchase and increase the recovery costs for services we provide.

Strategies

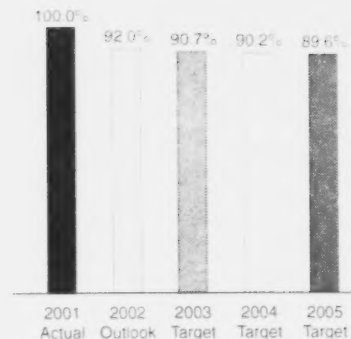
- Review all functions to ensure they are resourced appropriately.
- Continue to seek cost-saving opportunities for controllable expenses.
- Market products and services with sales growth opportunities.
- Adjust business processes to reduce costs and improve response times and customer satisfaction.
- Implement loss management programs to reduce the number and seriousness of crashes and crimes.
- Focus on preventing fraud and foster a zero-tolerance attitude towards fraud to safeguard customers' premiums.
- Negotiate supplier agreements based on sound business principles.

Performance Measures

Loss Ratio –

Another key performance indicator within the insurance industry is the loss ratio, which is a measure of the insurance product's profitability. The lower the percentage, the more profitable the product. This measure is calculated as the ratio of the total of claims and claims related costs including loss management and road safety costs, to insurance premium dollars earned.

The targets established for 2003-2005 reflect the impact of proposed changes to product design and offerings, which will improve profitability and contribute towards attaining the loss ratio target. ICBC will continue to have a higher than average loss ratio due to its mandate to provide affordable insurance to all drivers in BC, especially the category of high risk drivers. The P&C industry benchmark for the 2001 loss ratio is 77.7 percent.²⁰



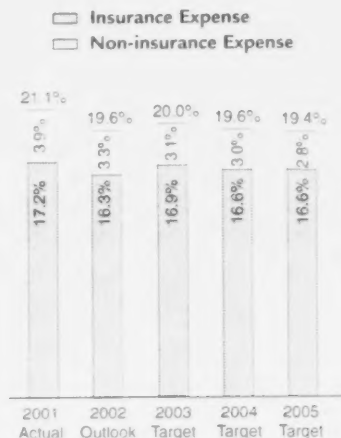
Source: ICBC Financial Systems

Expense Ratio –

The expense ratio is an industry standard measure for assessing the operational efficiency of an organization. This measure is calculated as the ratio of non-claims costs to insurance premium dollars earned. It includes operating costs that are not directly related to servicing claims such as general administration, commissions paid to brokers, taxes paid to government on premiums written, product design (underwriting) and non-insurance costs such as those associated with driver licensing and vehicle registration. To ease comparability with industry benchmarks, the expense ratio excludes unusual adjustments.

This ratio consists of two key components: the insurance expense ratio and the non-insurance expense ratio. Segregating expenses in this manner allows ICBC to better manage the costs of operating its insurance business. The insurance expense ratio includes the acquisition cost ratio identified in the 2002 - 2004 Service Plan.

In recent years, the corporation has focused on operational excellence in an effort to reduce the insurance expense ratio.



Source: ICBC Financial Systems

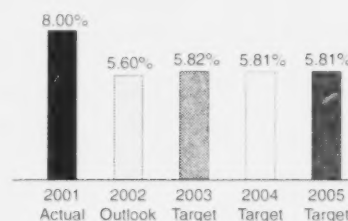
Industry average for the auto insurance expense ratio for 2001 is in the range of 25 percent to 27 percent (sum of commissions, taxes²² and general expenses ratio).²³ The overall P&C expense ratio is 30.9 percent of which auto insurance is only a component. ICBC understands the industry's expense ratio for the auto insurance class of business to be in the range of 25 to 27 percent. ICBC's 2002 insurance expense ratio of 16.3 percent compares favourably with this and the targets established for 2003-2005 demonstrate ICBC's continued commitment to reducing operating costs. ICBC will be incurring additional costs in 2003 in the move to becoming more competitive.

The non-insurance expense ratio represents the ratio of the operations and administration costs of ICBC's non-insurance business to insurance premium dollars earned. These costs include those related to providing driver licensing, commercial vehicle services and vehicle registration and licensing. Monitoring these costs ensures that ICBC continues to be an efficient provider of these services on behalf of government. This measure incorporates the components of the commercial vehicle and driver service expense ratios identified in the 2002-2004 Service Plan.

Investment Return –

ICBC manages an investment fund of over \$5.8 billion to generate investment income used to reduce premiums to the policyholder. This measure is calculated as the ratio of investment income over the average book value of the investments portfolio.

The targets for 2003-2005 reflect the impact of the downturn in the capital markets, low interest rates and continued investor uncertainty, which is affecting the P&C industry as a whole. The targets reflect lower expectations for investment income as a result of reduced expected market returns on the fixed income and equity portfolios. The returns from the fixed income portfolio will be impacted negatively if interest rates increase from their current low levels. However, ICBC's goal will continue to be focused on meeting or exceeding the industry average performance. The 2001 P&C industry benchmark for this measure is 7.2 percent.²⁴



Source: ICBC Financial Systems

²² As a Crown corporation, ICBC is not subject to municipal property taxes and instead, pay grants in lieu of property taxes. These grants are equivalent to the amount that would be paid if ICBC were assessed taxes on the value of its properties.

²³ A.M. Best Canada Ltd., Best's Key Rating and Statistical Guide, Property & Casualty 2002 Edition (2001 Operating results for Canadian P&C companies selling auto insurance).

²⁴ Ibid.

Claims Productivity –

Employees involved in the handling of claims account for 53 percent of ICBC's workforce and 50 percent of operating costs. This is a new measure for ICBC and is still being developed. Once complete, the new measure will be included in the corporation's Service Plan.

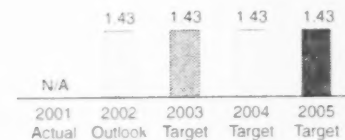
N/A	N/A	TBD	TBD	TBD
2001 Actual	2002 Outlook	2003 Target	2004 Target	2005 Target

Source: To be determined

The most significant costs for ICBC are the claims and claims handling costs paid as a result of a crash. Many of these initiatives in this area are directed at reducing the occurrence of these incidents. As a result, the following measures related to crash and crime rates are used by ICBC to review performance in this area. Increases in these rates could signal to ICBC the need to modify or implement road safety programs and to review its product design and offerings.

New Driver Crash Rate –*

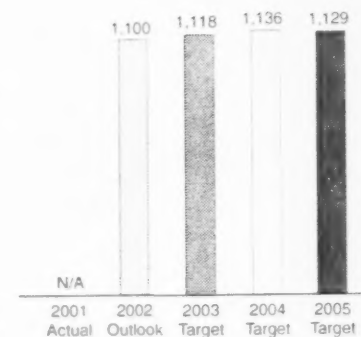
In order to measure the results of the Graduated Licensing Program and other initiatives aimed at new drivers, ICBC has added this new measure. This measure describes the crash rate for new drivers relative to the rate for more experienced drivers. The targets are currently set to maintain the current benefits from the existing programs for new drivers. ICBC is examining new opportunities to reduce the number of new driver related incidents and the targets will be revised when these opportunities move into implementation.



Source: ICBC Financial Systems

Crash Rate –*

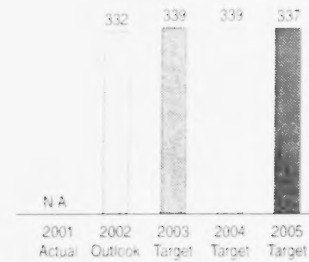
This measure is calculated as the number of crashes for every 10,000 annualized policy years. A policy year represents one year of insurance coverage. This is a new measure for 2003 and will track the overall frequency of crashes. A change in the crash rate may be the result of various causes - both internal and external to ICBC. Changes implemented through loss management and road safety programs and insurance product modifications (e.g. increased deductibles) work together with external factors such as traffic enforcement, weather and the BC economy to create a combined effect on the crash rate.



Source: ICBC Financial Systems

Injured Person Rate* --

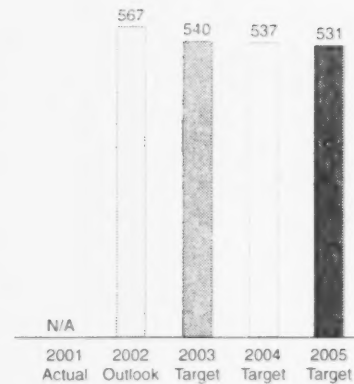
This measure calculates the number of injured persons for every 10,000 annualized policy years. The targets assume the loss management programs' benefits will be maintained. This is a new measure designed to evaluate the loss management and road safety programs.



Source: ICBC Financial Systems

Auto Crime Rate* --

This measure calculates the number of auto crime incidents for every 10,000 annualized comprehensive or specified perils policy years. The targets are based on the assumption auto crime frequency will increase slightly, but will be significantly offset by recent increases in deductibles for optional products. In addition, the targets factors in expected savings from new and enhanced loss management programs. This is a new measure designed to evaluate the auto crime loss management programs.



Source: ICBC Financial Systems

*Reliable industry comparatives are not readily available; however, ICBC is continuing to seek appropriate benchmarks.

PERSONALLY ACCOUNTABLE, CAPABLE & ENGAGED PEOPLE

ICBC's people are the foundation for becoming a more competitive organization. In the following three years, ICBC will accelerate its shift to becoming a more results oriented culture where people are capable and engaged in delivering results and held accountable for results. This includes systematically working to ensure our people have all the information they need to successfully perform their jobs. However, providing information is not enough; ICBC is making a strong commitment to improving how it listens to employees. ICBC also needs to ensure that employees have the skills, knowledge, tools and processes they need to support the organization in achieving its goals. Developing the collective agreement, which expires in June 2003, with the OPEIU will play an important role in making this progress.

ICBC will continue to implement a Performance Management System to reflect the new accountabilities and expectations for performance and delivering results. More specifically, ICBC is using a new performance-based remuneration program for managers as means to align each employee's efforts with the corporate goals and objectives contained in this Service Plan. Performance management is also a means of maximizing people's potential to help them succeed. Overall, this is a collective way to focus on the organization's success and to make ICBC's strategy come alive.

Over the coming three years, ICBC will be focusing on retaining, developing and acquiring the talent it needs to be more competitive. Moreover, ICBC will be looking to ensure it has the strong leadership it requires to take the organization through this

important transition. Succession planning is therefore key. ICBC will be working to identify, develop and mentor the next generation of leaders to ensure the corporation is positioned for long-term success.

Having personally accountable, capable and engaged people is the essential factor for ICBC to be successful in implementing this strategy.

Objectives

Develop a high performance work culture that enables people to succeed in a competitive environment.

Strategies

- Complete the implementation of the Performance Management System that is designed to continuously improve and raise the bar on organizational performance by assessing results and enabling the organization to focus on those factors that contribute directly to success.
- Implement succession planning to ensure ICBC has identified and developed its future leaders.
- Develop management and leadership skills to support our people in working together to succeed in a competitive environment.
- Further develop internal insurance expertise to support ICBC's move to become more competitive.
- Create opportunities for employees to identify issues and opportunities to assist us in becoming more competitive.

Performance Measures

Employee Index –

The employee index is based on two components – employee alignment and employee engagement. The employee alignment component focuses on the level of knowledge, understanding and commitment of employees to their departmental, divisional and corporate goals. The employee engagement component measures the overall satisfaction level of employees with their work environment. The calculation of the index is based on employee survey results and elements of ICBC's performance management process. As this is a new measure for ICBC, targets for 2004 and 2005 will be determined once appropriate baseline information is available. This measure reflects the importance of measuring ICBC's people's alignment and engagement in making this service plan come to life.

85%

N/A		TBD	TBD
2002 Outlook	2003 Target	2004 Target	2005 Target

Source: ICBC Human Resources Systems

STRATEGY SUMMARY

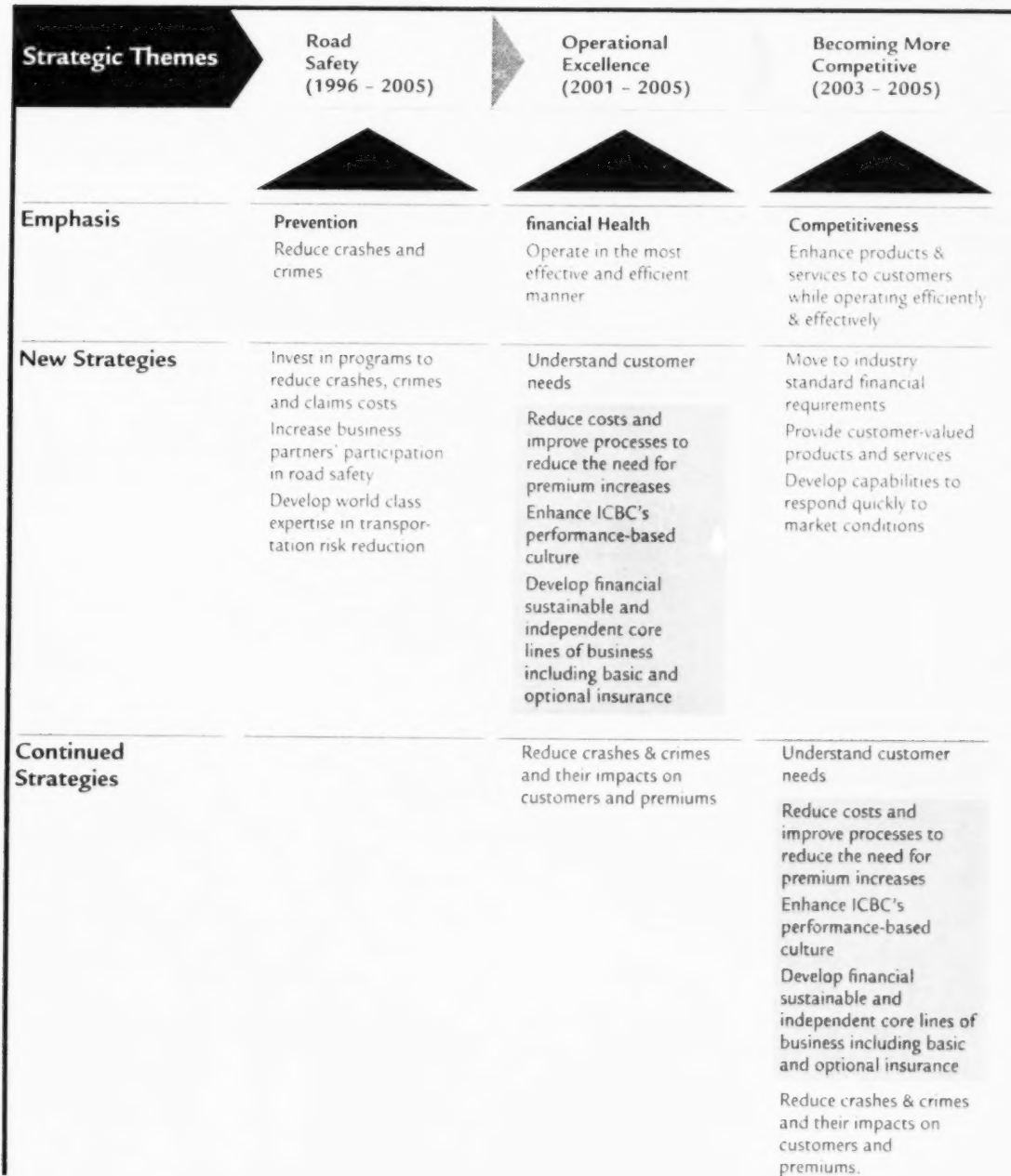
The following table summarizes ICBC's goals, objectives, measures and targets contained in the previous pages to provide an overall view of the corporation's Service Plan for the coming three years.

Goal	Objectives — High Level	Measures	Outlook	Targets		
			2002	2003	2004	2005
Become More Competitive	- Deliver innovative, competitive and tailored optional products and services that are valued by customers, self-funded and priced based on risk. - Achieve planned net income.	Return on Equity on an annual basis	12.3%	14.9%	10.4%	18.3%
		Adjusted ROE on 2-year rolling basis	-32%	12.8%	11.7%	13.5%
		Combined Ratio	111.0%	110.3%	109.8%	109.0%
Customer Focused	Increase customers' support for ICBC as a result of informed opinions and a better understanding of the value and operations of the company.	Autoplan Satisfaction	92%	93%	94%	95%
		Driver Services Satisfaction	90%	86%	87%	88%
		Claims Satisfaction	86%	86%	87%	89%
Revenue Driven & Fiscally Responsible	- Excel in operational effectiveness and efficiency. - Minimize claims costs, severities and frequencies through claims and loss management. - Reduce the costs of goods and services we purchase and increase the recovery of costs for services we provide.	Loss Ratio	92.0%	90.7%	90.2%	89.6%
		Expense Ratio:				
		· Insurance expense ratio	16.3%	16.9%	16.6%	16.6%
		· Non-insurance expense ratio	3.3%	3.1%	3.0%	2.8%
		Total	19.6%	20.0%	19.6%	19.4%
		Investment Return	5.6%	5.82%	5.81%	5.81%
		Productivity	TBD	TBD	TBD	TBD
		New Driver Crash Rate	1.43	1.43	1.43	1.43
		Crash Rate	1,100	1,118	1,136	1,129
		Injury Rate	332	339	339	337
Auto Crime Rate	567	540	537	531		
Personally Accountable, Capable and Engaged People	Develop a high performance work culture that enables people to succeed in a competitive operating environment	Employee Index	N/A	85%	TBD	TBD

* Excludes acquisition cost adjustments (Deferred Premium Acquisition Costs) and Other Unusual Items

ICBC's Strategy Going Forward

The following diagram provides a visual representation of ICBC's strategic themes. It provides a historical perspective on ICBC's past strategy and how it has changed over the past years. Moreover, the following provides a summary of ICBC's strategy going forward during the period of this Service Plan.



Alignment with Government's Strategic Plan

This section is intended to provide an understanding of how ICBC contributes to the provincial government's overall strategic plan and is aligned with the core principles articulated in government policies.

As a BC Crown corporation, ICBC's strategic direction for the coming three years is designed to support the provincial government in achieving its objectives set-out in the British Columbia Government 2003/04 - 2005/06 Strategic Plan. Specifically, ICBC contributes to the provincial government's objectives in the following ways:

GOAL 1. A STRONG AND VIBRANT PROVINCIAL ECONOMY

ICBC contributes to this goal primarily by offering affordable insurance and being fiscally responsible. The corporation is working to improve its financial position by becoming more efficient and competitive in its business activities and by developing a high performance work environment.

In terms of specific government strategic initiatives, ICBC is contributing to the following:

- Core Services Review: ICBC is working with government to implement the recommendations of the Core Services Review as articulated in this Service Plan.
- Service Plan Performance Targets: ICBC is continuing to use the targets outlined in this Service Plan to guide its resource allocations and activities. ICBC will continue to strive to meet the targets setout in this Service Plan.
- Deregulation: ICBC is working to reduce its regulatory requirements by one-third by June 2004.

GOAL 2. A SUPPORTIVE SOCIAL INFRASTRUCTURE

ICBC's main contribution to this goal revolves around the objectives of healthy and self-sufficient British Columbians. As an auto insurance company, ICBC plays an important role in helping those injured in motor vehicle crashes recover from their injuries. Recovery includes supporting the person in improving their health and returning to work.

GOAL 3. SAFE, HEALTHY COMMUNITIES AND A SUSTAINABLE ENVIRONMENT

The government's objective of safe communities for British Columbians is an important priority for ICBC. Safe communities include low numbers of stolen vehicles. Vehicle thefts are an issue for British Columbia. For example, in 2001, 5,200 vehicles were reported stolen to ICBC from the city of Vancouver, at a total cost of approximately \$22 million to ICBC policyholders. ICBC is focusing its loss management efforts on reducing the number of vehicle thefts and improving community safety.

Summary Financial Outlook

This section is intended to provide you with an understanding of how ICBC is allocating its financial resources over the coming years to accomplish the above strategic goals, objectives, strategies and results.

(\$M)	2002 (outlook)	2003 (outlook)	2004 (outlook)	2005 (outlook)
Premiums Earned	2,625	2,808	2,929	3,009
Investment Income	321	335	322	341
Total Revenue	2,946	3,143	3,251	3,350
Claims Incurred — net	2,128	2,262	2,333	2,381
Claims Services & Loss Management	287	285	309	316
Insurance Operations Expenses	428	475	486	499
Other*	(32)			
Non Insurance Expenses	87	87	87	84
Total Expenses	2,898	3,109	3,215	3,280
Operating Income (loss) before the under-noted	48	34	36	70
Other Unusual Items	15	(11)		
Lease Termination Settlement	(41)			
Investment Provision	41			
Net Income (loss)	33	45	36	70

Key Assumptions

- Claims increases, vehicle growth and inflation
- Rate increases and cost management initiatives to ensure long term financial stability
- No prior years' claims adjustments are reflected in 2003 and beyond
- Outlook based on no significant change in business practices
- Outlook based on the status quo business model and existing cost structures which reflects the 2001 and 2002 staff reductions.
- Compliance Operations costs are included in 2003 - 2005.
- Return on investment — based on the targets included earlier in this plan.

Forecast Risks & Sensitivities

- One percent fluctuation in premiums means \$28-\$30 million change in net premiums earned
- One percent change in market share represents a \$3 million impact on net income
- One percent fluctuation in claims means \$23-\$25 million change in claims costs
- One percent fluctuation in the unpaid claims balance means \$40 million change in claims costs.
- One percent fluctuation in investment return means \$56 million change in investment income
- One percent change in investment balance means \$4 million change in investment income

* Acquisition cost adjustment (Deferred Premium Acquisition Costs)

Major Capital Project Information

This section is intended to provide you with an overview of ICBC's Central City capital project.

CENTRAL CITY

Project Description and Objectives:

ICBC Properties Ltd. (IPL), was created in 1999 as a wholly owned subsidiary of ICBC, with responsibility for managing ICBC's real estate held within its investment portfolio, including real estate development. IPL has its own board of directors and executive management team.

The Central City development is IPL's major real estate development initiated in 1999. Located next to the Surrey Central SkyTrain Station, the project consists of the Surrey Place Mall and new construction of a Galleria and 25 story-office tower with leased commercial and office space. The original development and acquisition budget was \$253 million (\$43.5 million acquisition and \$209.4 million development). Construction began in spring 2000, with completion expected in January 2003. The original development portion of the project is expected to be completed within the original budget and timelines. However, changes in leasing arrangements led to an increase in the overall capital budget.

TechBC originally entered into a 25-year lease agreement with IPL for approximately 450,000 gross square feet of space. TechBC has since cancelled their lease agreement. This cancellation, coupled with the decision to lease out the space ICBC originally intended to occupy, is resulting in additional capital and leasing expenditures of \$59 million to prepare the building for occupancy by other tenants. This \$59 million budget increase is offset by \$44 million from other sources (\$41.1 million settlement from the provincial government to compensate for lost future revenue streams and associated costs and \$2.8 million in leasing revenue) and results in a net capital budget of \$268 million. The majority of these increased costs will be incurred as leases are secured. IPL continues to search for tenants having leased 70,000 square feet of space. In addition, ICBC established in 2001 a provision for the diminution in value of \$100.0 million on the project's overall development cost as a result of independent market appraisals that took into account the downturn in the real estate market.

Given the deterioration of the commercial real estate market and changes in original tenancy commitments for the project, the overall objective now is to achieve reasonable returns, based on market conditions, on the investment already committed.

Costs:

(\$M)	Budget Items
43.5	Total cost for Surrey Place Mall
•	
209.4	Original construction project budget
59.0	Additional budget required to lease the building due to the cancellation of TechBC's lease and the decision to lease-out the space ICBC originally intended to occupy
(41.1)	Settlement for the cancellation of the TechBC lease
(2.8)	Leasing revenues
224.5	New net construction project budget
Expenditures as of December 31, 2002	
123.0	Expended to date
2.4	Commitment
99.1	Budget remaining
224.5	Total new net construction project budget

Benefits:

The benefits originally intended for this project included the following (note some benefits may not be applicable at this time):

- Direct employment resulting from construction, maintenance and administration of the facility.
- Increased economic activity associated with the tenants' business needs.
- Enhanced utilization of existing transportation infrastructure.
- Advantages derived from synergies between ICBC, Tech BC and other tenants.

Generally, real estate development projects are designed to provide higher returns to compensate for the higher risks. In the case of Central City, lower financial returns were accepted given the anticipated social benefits.

Risks:

Development risks:

As the original development component of the project is nearly complete and will be on time and on budget, development risks are minimal.

Leasing risks:

Vacancy rates have a major influence on leasing risks. Since the project began there has been a significant market slowdown, with an associated impact on vacancy rates. The building was designed for specific tenants. The sophisticated nature of the facilities design and amenities lends itself to attracting tenants with specific space requirements. The lack of anchor tenants increases the leasing risks. All of these factors contribute to a difficult leasing challenge in both the office and retail components.

Valuation risks:

If the lease market down turn persists or worsens, an increase in the provision for diminution in value may be required.

ICBC does not intend to undertake any future projects similar to Central City.

